Chapter 2: Introduction

In the 2002 supplemental capital budget the legislature directed the Department of Natural Resources (department) and trust beneficiaries to study options for increasing revenues to the trusts, including returns from purchasing replacement trust property or investing the proceeds from the sale of existing trust property in the trusts' permanent funds. The legislature directed the department to report back to the legislature on the study.

Trust properties managed by the department include the seven federally granted trusts (Common School, Normal School, Agricultural School, Scientific School, State University, Capitol, and CEP&RI), the two county trusts (Forest Board Purchase and Transfer) and the Community and Technical College Forest Reserve.

Permanent funds were established at statehood for the Common School, Normal School, Scientific School, Agricultural School, and State University trusts (University Original). These trust funds support the following educational institutions, respectively, the common schools, the state's four regional universities, Washington State University (both Scientific and Agricultural) and the University of Washington. There is no permanent fund for the CEP&RI, Capitol, the Forest Board or Community and Technical College trusts. In 1893, the legislature designated 100,000 acres of the CEP&RI grant lands for the support of the University of Washington. Revenues from the sale of land and nonrenewable resources from CEP&RI lands dedicated to the support of the University of Washington are currently deposited in the University Permanent Fund.

The legislative direction for this study originated in the legislature's discussion of relative investment returns from replacement trust lands and the permanent funds and consideration of asset value diversification and the wisdom of selling or transferring land assets and reinvesting either in land through the RPRA or financial instruments through the permanent fund.

The legislature created the Natural Resources Real Property Replacement Account (RPRA) in 1992 to provide a means of diversifying assets, while keeping the value in replacement land as agricultural, forestry and commercial assets rather than selling the land and converting public lands into cash. During the discussion surrounding the level of the FY2001-03 supplemental capital budget for the RPRA, the question was asked whether it is in the trusts' best interest to purchase replacement property or to deposit funds from the sale or transfer of trust real property into the trusts' permanent funds. To help answer this question the legislature included the following proviso in its supplemental capital budget:

"The appropriation in this section is subject to the following conditions and limitations: The department and trust beneficiaries shall study options for increasing revenues to the trust. The study shall include costs and benefits over time for replacing trust lands with various trust assets including depositing funds from land transfers and sales into the permanent funds. The department shall report on the study to the legislature by December 1, 2002."

This report is in response to that request.